

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

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FINANCIAL AUDIT REPORT,
CALIFORNIA LEGISLATURE,
U.S. DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT PROJECT GRANT
CPA-CA-09-00-1004 FROM JULY 1, 1975
TO FEBRUARY 28, 1979 AND GRANT 1033 FROM
JULY 1, 1976 TO FEBRUARY 28, 1979

APRIL 1979



California Legislature

Joint Legislative Audit Committee

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April 26, 1979

903

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectively submits the Auditor General's financial audit report of the California Legislature, U.S. Department of Housing and Urban Development Project Grant CPA-CA-09-00-1004 from July 1, 1975 to February 28, 1979 and Grant 1033 from July 1, 1976 to February 28, 1979.

This audit fulfills the audit requirements which accompanied the award of the grants to the Legislature.

The auditors are Richard I. LaRock, CPA, Audit Supervisor and Mildred M. Kiesel, CPA. Support staff is Pam York.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard Robinson".

RICHARD ROBINSON
Assemblyman, 72nd District
Chairman, Joint Legislative
Audit Committee

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INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee, we have conducted a financial audit of the California Legislature, U.S. Department of Housing and Urban Development Project Grants CPA-CA-09-00-1004 and 1033 for the periods July 1, 1975 and July 1, 1976, respectively, to February 28, 1979. This audit was conducted under the authority vested in the Auditor General by the Government Code.

Project grant CPA-CA-09-00-1004 was awarded to the California Legislature, Joint Committee on Rules and project grant CPA-CA-09-00-1033 was awarded to the California State Legislature. The former Joint Subcommittee on Community Development and the former Assembly Special Subcommittee on Community Development administered the projects. The grants were funded by two-thirds federal funds and one-third state funds.

The U.S. Department of Housing and Urban Development requires that audits are to be conducted to determine the fiscal integrity of financial transactions and reports, and compliance with laws, regulations and administrative requirements. This audit was made to fulfill these audit requirements.

The principal objective of the two project grants was to investigate ways to improve state and local community development processes. At the completion of each project, the Legislative Committees administering the projects submitted final reports to the U.S. Department of Housing and Urban Development.

AUDITOR'S OPINION

To the Joint Legislative Audit Committee
of the California Legislature

We have examined the balance sheet of the California Legislature, U.S. Department of Housing and Urban Development Project Grants CPA-CA-09-00-1004 and 1033 at February 28, 1979 and the statement of cumulative resources and expenditures for the periods July 1, 1975 and July 1, 1976, respectively, to February 28, 1979. Our examination was made in accordance with generally accepted auditing standards and HUD standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of the California Legislature, U.S. Department of Housing and Urban Development Project Grants CPA-CA-09-00-1004 and 1033 at February 28, 1979, and the results of their operations for the periods July 1, 1975 and July 1, 1976, respectively, to February 28, 1979 in conformity with generally accepted accounting procedures and in accordance with standards prescribed by HUD.

We have also reviewed compliance and internal control matters in accordance with the provisions of the HUD Audit Guide for the Comprehensive Planning Assistance Program and have included applicable comments on pages 5 and 6.

OFFICE OF THE AUDITOR GENERAL
STATE OF CALIFORNIA



WESLEY E. VOSS
Assistant Auditor General

DATE: April 11, 1979

STAFF: Richard I. LaRock, CPA
Mildred M. Kiesel, CPA

COMMENTS ON COMPLIANCE AND INTERNAL CONTROL

1. Based on our tests of transactions and examination of records, we believe that the California Legislature has complied with the following:

- a. The terms and conditions of the grant contracts
- b. The regulations, policies and procedures applicable to the Legislature and those prescribed by HUD regarding financial operations.

2. As a part of our examination, we reviewed and tested the Legislature's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards the purpose of such evaluation is to establish a basis for reliance thereon in determining the nature, timing, and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements. Additionally, our examination included procedures necessary in our judgment to determine compliance with contractual terms and conditions and regulations, policies, and procedures prescribed by HUD, insofar as such compliance review was necessary under the provisions listed as "a" through "f" under "Audit Coverage" in the HUD Audit Guide for the Comprehensive Planning Assistance Program.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect either to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to

future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, and that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the Legislature's system of internal accounting control and our review of its compliance with contractual terms, regulations, policies, and procedures which was made for the purpose set forth in the first paragraph of this section did not disclose any conditions that we believe indicate weaknesses in its internal accounting control system.

CALIFORNIA LEGISLATURE,
 U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
 PROJECT GRANTS CPA-CA-09-00-1004 AND 1033
 BALANCE SHEET
FEBRUARY 28, 1979

ASSETS

Available Funds in State Treasury	\$ 203
Accounts Receivable	
U.S. Department of Housing and Urban Development--Grant CPA-CA-09-00-1033	\$ 81
State Contribution	<u>7,199</u>
Total Assets	<u><u>\$7,483</u></u>

LIABILITIES AND PROJECT BALANCES

Liabilities:

Accounts Payable	\$3,540
Federal Grant Payable--Project CPA-CA-09-00-1004	<u>3,943</u>
Total Liabilities	7,483
Project Balances	<u>-0-</u>
Total Liabilities and Project Balances	<u><u>\$7,483</u></u>

The notes to the financial statements are an integral part of this statement.

CALIFORNIA LEGISLATURE, U.S. DEPARTMENT OF HOUSING AND
 URBAN DEVELOPMENT PROJECT GRANTS CPA-CA-09-00-1004 AND 1033
 STATEMENT OF CUMULATIVE RESOURCES AND EXPENDITURES
 AND COMPUTATION OF PROJECT GRANTS ON
 COMPLETED PROJECTS FROM JULY 1, 1975 AND JULY 1, 1976,
RESPECTIVELY, TO FEBRUARY 28, 1979

	<u>CPA-CA-09-00-1004</u>	<u>CPA-CA-09-00-1033</u>	
	<u>Budgeted</u>	<u>Actual</u>	<u>Budgeted</u>
<u>RECEIPTS</u>			
Federal Grant Payments	\$ 90,000	\$ 89,655	\$ 90,000
State Contribution	<u>45,000</u>	<u>42,856</u>	<u>45,000</u>
TOTAL RECEIPTS	<u>\$135,000</u>	<u>\$132,511</u>	<u>\$135,000</u>
<u>EXPENDITURES</u>			
Salaries	\$ 70,740	\$ 76,014	\$ 90,125
Fringe Benefits	10,965	9,388	13,400
Travel	4,000	3,255	4,700
Equipment and Office Rental	7,000	4,461	7,700
Supplies, Books, Telephone	5,000	4,102	2,100
Contracted Services	33,920	30,473	15,000
Project Inspection Fee	875	875	875
Printing	2,500	-	100
Audit Services	-	-	1,000
TOTAL EXPENDITURES	<u>\$135,000</u>	<u>\$128,568</u>	<u>\$135,000</u>
Federal Participation in Project Costs		Two-thirds	Two-thirds
Pursuant to contracts, the federal grant may not exceed the lesser of the percentage participation shown above, or:		<u>\$ 90,000</u>	<u>\$ 90,000</u>
Accordingly, the federal grant permissible is:	85,712		88,904
Less federal grant payments	<u>89,655</u>		<u>88,823</u>
FEDERAL GRANT RECEIVABLE (PAYABLE)	<u>(\$ 3,943)</u>		<u>\$ 81</u>

The accompanying notes are an integral part of this statement.

CALIFORNIA LEGISLATURE,
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
PROJECT GRANTS CPA-CA-09-00-1004 AND 1033
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 1979

I. Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of the California Legislature, U.S. Department of Housing and Urban Development (HUD) Project Grants CPA-CA-09-00-1004 and 1033 are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

B. Period of Grants

Project Grant CPA-CA-09-00-1004 was for the period July 1, 1975 to August 15, 1976. Project Grant CPA-CA-09-00-1033 covered the period from July 1, 1976 to October 31, 1977.

C. Federal Funds

The California State Treasurer is designated as the direct depository for the HUD grant funds. The HUD grant funds are maintained in a separate account in the state's Special Deposit Fund and, with receipt of required supporting documents, are disbursed by warrants issued by the State Controller.

D. Matching Provisions

Project Grants CPA-CA-09-00-1004 and 1033 were each in amount of \$90,000 federal funds and each required use of \$45,000 of nonfederal funds. Provisions of nonfederal funds were made from the state's Contingent Funds of the Assembly and Senate and the state's Assembly Contingent Fund.

E. Semi-direct Costs

For requisition of federal funds, fringe benefits were estimated at 15 percent of gross salaries.

We recommend that fringe benefits be reduced to the amount which was expended on behalf of project employees for the employer's contribution to the Federal Insurance Contribution Act, employee health insurance plans and to the Public Employees' Retirement System. This recommendation resulted in reductions of reported expenditures for fringe benefits as follows:

Grant Project CPA-CA-09-00-1004 reduced	\$2,014.06
Grant Project CPA-CA-09-00-1033 reduced	\$ 972.34

The grantee agreed with our recommendation; the amounts for fringe benefits reported in the Statement of Cumulative Resources and Expenditures have been reduced accordingly.

Equipment and office rental was estimated at \$550 per month for the requisition of federal funds.

We recommend that equipment and office rental be reduced to the actual cost of rented space occupied by the project staff plus the annual equipment use allowance authorized by HUD of six and two-thirds percent of the estimated acquisition cost of the equipment. This recommendation resulted in reductions of reported expenditures for equipment and office rental as follows:

Project CPA-CA-09-00-1004 reduced	\$3,239.46
Project CPA-CA-09-00-1033 reduced	\$3,239.46

The grantee agreed with our recommendations; the amounts of equipment and office rental reported in the Statement of Cumulative Resources and Expenditures have been reduced accordingly.

Office of the Auditor General

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps